

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
JEAN JEWELL
COMMISSION STAFF
LEGAL**

FROM: LISA NORDSTROM

DATE: JANUARY 15, 2003

**RE: IN THE MATTER OF THE INVESTIGATION INTO THE PURCHASE GAS
ADJUSTMENT (PGA) MECHANISM AND THE NATURAL GAS
PURCHASING POLICIES OF INTERMOUNTAIN GAS COMPANY. CASE
NO. INT-G-01-1.**

In the year 2000, Intermountain Gas Company filed two Purchase Gas Adjustment (PGA) increases. Intermountain Gas customers observed their winter rates increase by 60% in one year. While a PGA increase is not uncommon, two increases in less than a year are unusual and the total increase to customers was unprecedented. On February 7, 2001, the Commission issued a Notice of Investigation in Order No. 28632 directing Staff to investigate Intermountain Gas' PGA mechanism and purchasing policies.

STAFF REPORT

Staff filed its report on May 25, 2001 and determined that natural gas wholesale market prices skyrocketed after three years of unseasonably warm weather, decreasing storage inventories, increased demand due to growth and increased reliance on natural gas for electric generation, increasing competition for Canadian natural gas, and a colder than normal winter. Staff found that the high wholesale prices for natural gas were unexpected and unprecedented. Staff was unable to find any material that predicted increases of that magnitude.

Staff believes the Company has since taken some steps to minimize the volatility of gas prices to customers. Intermountain Gas provides a diverse gas portfolio with purchases from all available supply basins. The Company has taken advantage of capacity releases and off-

system sales. It has an extensive amount of storage to take advantage of seasonal differences between summer and winter gas prices.

After reviewing other possible gas purchase mechanisms, Staff continued to believe that the existing PGA mechanism is the best system to ensure customers pay the lowest price for the natural gas commodity. The mechanism is readily auditable, provides no perceived regulatory disincentives, sends the correct price signal to customers, allows the Commission the flexibility to determine the price to customers, and assures customers that they will pay no more than the Company pays for the procurement of natural gas.

In light of changes occurring in the natural gas industry in recent years, Staff believed it more important than ever for the Commission and the Company to communicate and document Company activities. The Company must be willing to provide the Commission an increased amount of information to assure customers that the Company is using all available expertise to optimally minimize natural gas procurement costs. As a result of the investigation, Staff made the following recommendations:

- Maintain the existing purchase gas cost adjustment mechanism.
- Improve documentation and increase communication between the Company, the Commission, and Staff. At a minimum the Company should retain the following information:
 - All graphs, visuals and charts used in discussions to make gas procurement and hedging decisions;
 - Articles, letters, memos, reports, notes, etc. detailing the current gas market and/or projections;
 - Summary of risk management meetings between IGI and Intermountain; and
 - Written decisions resulting from each risk management meeting that is signed by a corporate officer.
- The Company should document and report all new contracting arrangements and initiate a bidding process for new gas contracts as existing contracts expire.
- The Company should be directed to file its required Integrated Resource Plan (which it has since done) and provide additional annual updates in addition to the required biannual filing.

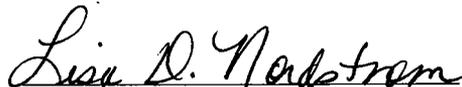
- The Company should be directed to provide to Staff the most complete, current information and services for the following:
 - A complete statement of qualifications for IGI Resources;
 - A complete list of the services that IGI Resources provides to Intermountain Gas Company;
 - A complete list of other available services offered by IGI Resources not currently utilized by Intermountain Gas Company; and,
 - A complete list of services and qualifications the Company finds necessary in a marketing service provider.
- The Company should investigate all conservation opportunities and develop cost-effective programs that could be offered to all customer classes.

INTERMOUNTAIN'S REPLY

On June 1, 2001, Intermountain Gas filed a reply indicating that the Company concurred with Staff's finding that the PGA should be maintained. Intermountain Gas further agreed to consult with Staff to provide the level of documentation necessary to assist Staff in reviewing the Company's ongoing gas purchasing decisions. The Company also stated that it would continue documenting all new contracting arrangements and bid new gas contracts as existing contracts expire.

COMMISSION DECISION

Based on the findings of Staff's report, does the Commission wish to issue an Order adopting Staff's recommendations and close out the case?


Lisa D. Nordstrom

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